

ERNIE FLETCHER  
GOVERNOR



TERESA J. HILL  
SECRETARY

TIMOTHY J. LEDONNE  
COMMISSIONER

## ENVIRONMENTAL AND PUBLIC PROTECTION CABINET

DEPARTMENT OF PUBLIC PROTECTION  
OFFICE OF FINANCIAL INSTITUTIONS  
CORDELL G. LAWRENCE, EXECUTIVE DIRECTOR  
1025 CAPITAL CENTER DRIVE, SUITE 200  
FRANKFORT, KENTUCKY 40601  
TELEPHONE: (502) 573-3390  
FAX: (502) 573-8787  
WEB SITE: [WWW.KENTUCKY.GOV](http://WWW.KENTUCKY.GOV)

### NEWS RELEASE

Contact: Kelly May  
502-573-3390, ext. 252

## OFI ALERTS CONSUMERS TO MORTGAGE PAYMENT INCREASES

### *Adjustable rate mortgage "recasts" could significantly increase payments*

FRANKFORT, Ky. (July 12, 2007) – Carl Bricken is just one of an estimated 1 million mortgage holders nationwide whose loans will adjust or "recast" this year, possibly causing a significant payment increase for the borrower.

When Bricken moved from Pennsylvania to LaGrange, Ky., he found that the mortgage loan terms he had agreed to for his new home had been changed on the date of signing.

Bricken's situation illustrates the importance of consumers checking their mortgage terms at every step of the lending process so that they know what obligations they are assuming and what changes they should be prepared for if the mortgages are adjustable, said Kentucky Office of Financial Institutions (OFI) Executive Director Cordell Lawrence.

Bricken's good-faith estimate had promised an adjustable rate mortgage with a fixed rate for the first two years and no prepayment penalty after that. What he signed was very different.

"I was told at the closing table that it was a state law that it would have to be a three-year prepayment penalty," Bricken said. "They wouldn't release the first loan without the other being signed. We had to sign."

Fortunately, Bricken was able to get help from OFI, which worked with the loan company to return the loan to the terms it had first offered him. When Bricken filed a complaint with OFI, he discovered there is no state law requiring the prepayment penalty, and the scenario he was presented with at the closing, often called a "bait and switch," is against state law.

-more-



## OFI ALERTS CONSUMERS TO MORTGAGE PAYMENT INCREASES - Page 2

Lawrence said the unprecedented rise in nontraditional mortgage loans in recent years has made it imperative that homeowners seek information regarding their loans and prepare with appropriate plans and budget decisions.

“We are concerned that many customers may not fully understand the characteristics of their home loan and may have difficulty affording the higher payments after a recast,” Lawrence said. “Homeowners should familiarize themselves with all loan documentation and prepare in advance for any coming adjustments.”

OFI urges borrowers to:

- Seek information on the characteristics of the mortgage and budget accordingly
- Inquire about the terms of any prepayment penalty
- Contact the lender for assistance; ask about possible solutions if payments are past due
- Consider contacting a trusted financial counselor for guidance

OFI also is issuing a letter to mortgage lenders encouraging them to provide customers with complete loan information and to work with homeowners to avoid foreclosure.

“Lenders should provide information on when the recast will occur and how much the monthly payment will adjust,” said Lawrence. “Should the loans go into default, lenders should consider making arrangements to prevent foreclosures.”

Consumers who believe their loan terms may have been predatory or suspect a mortgage provider has violated Kentucky law may file a complaint with OFI by calling 800-223-2579 or by visiting [www.kfi.ky.gov/consumerinfo/filecomplaintfi.htm](http://www.kfi.ky.gov/consumerinfo/filecomplaintfi.htm).

OFI is a partner in Kentucky’s Predatory Lending Prevention Committee and the state’s *Don’t Borrow Trouble*® initiative, a consumer awareness and education program. Consumers can call the initiative’s toll-free hotline at 866-830-7868 for help with questions about mortgages, refinancing, foreclosure prevention, other loans or predatory lending.

A related consumer alert issued jointly by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators can be viewed on OFI’s Web site at [www.kfi.ky.gov/consumerinfo/alerts.htm](http://www.kfi.ky.gov/consumerinfo/alerts.htm).

OFI is an agency of the Department of Public Protection in the Environmental and Public Protection Cabinet. It licenses, charters and regulates the activities of state-chartered/licensed depository and nondepository financial institutions.